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REPORT ON THE PROJECT ON THE DEVELOPMENT OF INTRA-AFRICAN TRADE AND MONETARY AND FINANCIAL CO-OPERATION
EXECUTIVE SUMMARY

I. Background

1. A significant share of the total foreign trade of the African continent, representing in most cases over 80 per cent in imports as well as in exports, is directed towards developed market economies. In contrast, intra-African trade, already at a very low level, has been declining. In 1975, the share of recorded intra-African trade amounted to 5-6 per cent of Africa's total external trade but decreased to 4.2 per cent in 1978. The figure compares unfavourably with intra-Latin American trade which, during the same year, was around 17 per cent and with intra-Eastern and Southern Asian trade (excluding Japan) which exceeded 20 per cent in 1978. No significant improvement has occurred since then.

2. There are a number of factors which hamper the development of intra-African trade. These include, among other things (a) the lack of clearly defined intra-African trade policy; (b) lack or inadequacy of transport and communication systems; (c) lack or low complementarity between the countries' production, consumption, distribution and marketing structures; (d) tariff and non-tariff barriers against goods from other African countries (e) absence or inadequacy of appropriate clearing and payments arrangements; and (f) absence of insufficiency of flow of trade information.

3. During the past few years, an increasing number of African countries have expressed their concern over this situation in various international fora. The ECA Conference of Ministers adopted various resolutions (Resolutions 222B, 262 (iii) etc.) and at its fifth meeting held in Rabat, Morocco, in March 1979, devoted considerable time to the economic problems of Africa. Discussions were based on the reports of the Monrovia colloquium on the prospects of development and economic growth in Africa up to the year 2000 and of the Addis Ababa Seminar on Alternative Patterns of Development and Life Style for the African Region. At its sixteenth session held in Monrovia, Liberia in 1979, the assembly of Heads of State and Government of the OAU adopted the Monrovia Declaration of Commitment on guidelines and measures for national and collective self-reliance for the establishment of New International Economic Order. The fundamental objective of the Monrovia Strategy and Declaration of Commitment is the establishment of self-sustaining development and economic growth based on collective self-reliance. In examining the question of a new African strategy in the field of international trade and finance as part of the overall development strategy for Africa in the Third Development Decade, the OAU/ECA Conference of Ministers of trade came out with a Plan of Action for the implementation of the Monrovia Strategy at its meeting held in Addis Ababa in March 1980. The second extraordinary assembly of Heads of State and Government of the OAU held in Lagos, Nigeria in April 1980 and devoted to the economic problems of Africa adopted the Lagos Plan of Action and the Final Act of Lagos.

II. Objectives of the Project

4. It is against this background that the project on the development of intra-African trade was initiated in June 1975 to cover a period of three and a half years. Despite its modest budget, the project achieved signficant progress

towards its objectives. In view of new needs and developments that have emerged in international trade, project activities during the second phase were widened to cover monetary and financial co-operation including export credit financing and export credit insurance. The second phase of the project on the development of intra-African trade and monetary and financial co-operation covered a period of three years (1979-1981) and was extended later for a further period of one year ending in December 1982.

5. The fundamental objective of the project was to assist African countries in the establishment of self-sustaining development and economic growth based on collective self-reliance through the expansion of intra-African trade and financial co-operation. The latter was expected to play a catalytic role in this respect. The immediate objectives of the project were, inter alia:

(i) To identify and analyse problems and obstacles which hamper the development of intra-African trade;

(ii) To formulate and develop appropriate policies and measures in the field of trade and monetary and financial co-operation designed to foster intra-African trade;

(iii) To promote the collection and dissemination of information on intra-African trade and economic co-operation;

(iv) To provide various types of training such as courses, symposia, seminars and workshops required for the promotion of intra-African trade and financial co-operation.

6. Most of the problems and obstacles encountered in the development of intra-African trade are of a structural nature. Their solutions would involve drastic changes in policy matters, production structures and trade and consumption patterns. Therefore, the results and impact of this project on intra-African trade development must of necessity be long-term in nature. However, during its second phase, substantial progress has been made towards achievement of its objectives. One of the lessons learned from implementation of the project is that intra-African trade development cannot be tackled in isolation from over-all African economic development. In fact, intra-African trade should constitute the basic foundation of African participation in world trade and economic relations. Bearing this necessity in mind, the project adopted a global approach which considered the development of intra-African trade not as a single factor but as a major component of African development in general. Consequently, the project placed great emphasis on building up mechanisms and institutions designed to foster intra-African trade and financial co-operation at subregional as well as regional levels. Some of the major activities in this respect are summarized in the paragraphs below, while a detailed account of the activities undertaken during the second phase of the project is contained in the final report of phase II of the project.[1/]

1/ Report on the project on the development of intra-African trade and monetary and financial co-operation, Doc.E/ECA/TRADE/2.

III. Assistance to subregions

(1) Eastern and Southern African Subregion

7. When the East African Economic Community collapsed in February 1977, there was no viable economic grouping in Eastern and Southern African Subregion. This left a deep yawning gap in the economic relations which was deeply felt by the countries of the subregion. Indeed, their willingness and aspirations for an economic integration subsisted.

8. At the MULPOC meeting held in Lusaka 1978, the Council of Ministers of the subregion committed themselves in a solemn declaration known since then as the Lusaka Declaration of Intent and Commitment to the creation of a Preferential Trade Area for Eastern and Southern Africa (PTA), as a first step towards a Common Market and an Economic Community.

9. Since then, the project personnel has spared no effort to assist these countries to establish the PTA especially in drafting relevant protocols and the Treaty, which includes provisions for co-operation not only in the field of trade and finance but also in the productive sectors such as industry and agriculture. These protocols are intended to facilitate the upgrading of the PTA into a higher economic co-operation and integration system.

10. Mainly as a result of the assistance from the project, the Treaty establishing the PTA for ESAS was signed in Lusaka in December 1981. The Authority of the PTA requested ECA to assume the responsibility of the interim Secretariat of the PTA, and ECA Secretariat relied heavily on the project staff in discharging this function from January to December 1982. The PTA secretariat became operational as of January 1983, after the recruitment of its core staff.

(2) Central African Subregion

11. The Central African subregion is composed of two MULPOCs. The first one, located in Yaoundé, covers 7 countries: Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon and Sao Tomé and Principe. The second was located in Gisenyi covers 3 countries: Burndi, Rwanda and Zaire. Within this subregion, there are two economic groupings: The Central African Customs and Economic Union (UDEAC) which is made up of Cameroon, Central African Republic, Congo and Gabon, and the Communauté Economique des Pays des Grands Lacs (CEPGL) made up of Burundi, Rwanda and Zaire. Because of various obstacles, these economic groupings have made little progress towards economic integration during the last decade.

12. Consequently, the Heads of State and Government of UDEAC requested ECA to undertake an evaluation of UDEAC performance since its inception and recommend ways and means of strengthening economic co-operation in Central Africa. The evaluation, part of which was carried out by the project personnel, recommended among other things, the enlargement of economic co-operation. This recommendation was adopted by the Head of State and Government of Central Africa at their summit held in December 1981 in Libreville, who committed themselves in a solemn declaration (known as the Libreville Declaration), to create an Economic Community of Central African States. Based on the experience gained in the establishment of

the PTA project staff took in active part in the establishment of the Central African Economic Community. For this purpose, Treaty and Protocols were drafted and studies undertaken with a view to facilitating the negotiations thereon.

13. It is worth mentioning that at the end of 1982, negotiations were concluded on the draft Treaty and 12 protocols, and 6 additional protocols were adopted at the Ministerial meeting held in May 1983. The Treaty establishing the Economic Community was signed in October 1983, in Libreville, Gabon, by ten Heads of States and Government of Central Africa.

(3) West African Subregion

14. The Treaty establishing the Economic Community of West African States (ECOWAS) was signed in 1976, but trade liberalization schemes could not enter into force, partly because of institutional problems such as the existence of trade liberalization schemes already applied by smaller economic groupings within ECOWAS whose activities needed to be harmonized. The first task of the project, therefore, was to assist ECOWAS in bringing about harmonization of the trade liberalization programmes of the existing economic groupings: ECOWAS, Communauté Economique des Etats de l'Afrique de l'Ouest (CEAO) and Mano River Union (MRU). The trade liberalization issue in ECOWAS covers a number of vital areas of economic integration, including rules of origin, tariff reduction, trade documents and compensation mechnaisms.

15. After a number of negotiating meetings, the three organizations agreed to the harmonization of trade documents and procedures, statistical nomenclature and standards and criteria for originating products. Nevertheless, the following issues remained to be tackled which require the type of expertise provided by the project personnel.

(a) Elaboration of capital ownership requirement as part of meeting the product originating conditions;

(b) Establishment of uniform tariff liberalization scheme;

(c) Establishment of compensation mechanisms;

(d) Elaboration of concrete supporting measures for trade liberalization in favour of the less industrially advanced member States.

(4) North African Subregion

16. In the North Africa subregion, the movement towards co-operation had been somewhat slower than in other areas. Thus, bearing this in mind, the project personnel serviced a number of meetings of officials and councils of plenipotentiaries of the North African MULPOC and prepared studies for the promotion of trade and monetary co-operation in that subregion. Although these meetings recognized the need for expanding and fostering economic co-operation, the prevailing political situation made it harder for ECA to assist the countries to take the necessary actions towards economic integration. Consequently ECA has

developed a new approach : emphasis would be put on bilateral as well as inter-subregional activities rather than subregional ones, especially in the field of trade. Furthermore, the concept of co-operation in North Africa will be enlarged to cover the developement of afro-arab co-operation in the field of trade and finance. It is to be mentioned that this approach has been warmly supported by the countries of the subregion.

IV. Advisory services and missions

17. As part of ECA's assistance to member countries in the field of trade and finance, the project staff undertook a number of missions and advisory services to African countries with a view to advising Governments on specific areas. Part of the missions' objectives were, to give clarifications on specific issues of interest to the countries relating to trade, finance and integration schemes, or to collecting relevant data and information on intra-African trade and financial co-operation.

V Research and studies

(1) Subregional studies

18. In order to provide the appropriate technical backstopping and advisory services to the member countries and the subregional institutions, research and studies constituted an integral part of the project activities. To this end, many studies and documents have been prepared by the project with a view on the one hand to helping negotiations on the establishment and/or strengthening of subregional economic groupings and on the other hand to setting up appropriate supporting institutuions.

(2) Regional Studies

19. The main studies undertaken by the project at this level related either to the identification of products likely to be traded among African countries or to the establishment and/or strengthening of regional institutions oriented towards the development of intra-African trade and financial co-operation. They are detailed in Terminal Report Doc. No.E/ECA/TRADE/2.

VI. Seminars and Training

20. The development of technical and managerial skills and competence to deal with specialized functions required to promote intra-African trade was also given high priority in the implementation of this project. To this end, the Project personnel participated in different training programmes and seminars. Some of the training activities were directly financed by the project.

VII Summary of the Major Findings of the Project

21. The long-term objectives of the project on intra-African trade and financial and monetary co-operation were assistance to African countries in promoting self-sustaining growth and diversification of the African production patterns on a co-operative basis as a means to gradually create the African Common Market envisaged under the Lagos Plan of Action. To this end, the project's achievements have been largely in three broad areas. Firstly, specific economic groupings have benefited from technical expertise provided under the project to advance aspects of co-operation at subregional level. Secondly, concrete steps have been taken or initiated towards the creation of an African Common Market envisaged under the Lagos Plan of Action. Thirdly, there has been an appreciable awareness and conviction among African countries of the need to promote intra-African trade as a means of attaining collective self-reliance within the framework of the South-South co-operation. Through the project, the ECA secretariat as well as member countries have learned a great deal about the structures, problems and prospects of developing intra-African trade as a means of enhancing the socio-economic growth of the continent. In some cases, the project confirmed earlier findings about the low level of such trade. For instance, the project found out that the level of about 4 to 5 per cent of intra-African trade in total African trade is too low to sustain meaningful growth rates. This compares unfavourably with about 17 per cent of intra-Latin American trade and about 20 per cent of intra-Eastern and Southern Asia Trade and indicates the degree of dependence of the African economies towards outside world and mainly towards developed market economies. At the same time, it shows the low level of economic integration of the continent.

22. At policy levels, the project found serious issues some of which are of historical origin, while some have structural and institutional causes. Among these factors, the following seem to be the important ones

(a) Most African countries did not bring about radical changes in the structure of production, trade and consumption patterns of their economies inherited from the colonial era and therefore did not adapt themselves to the basic needs of the masses of African population. Thus, they are still producing what they do not consume and consuming what they do not produce;

(b) The lack and/or inefficiency of trade and financial institutions at national as well as at subregional and regional levels have severely hampered economic development. This was especially evident in connexion with intra-African trade;

(c) The lack of trained and skilled manpower specifically in the field of intra-African trade not obly affected the national exploitation of raw materials and other resources in the continent; but also delayed the economic integration process;

(d) The lack of adequate and reliable information on intra-African trade combined with an indiscriminately high import tariff has led to the balkanization of African markets and the inefficiency of production units. The project found that African traders know more about overseas market conditions than they did on neighbouring countries;

(c) Many African countries have no definite policy on the development and expansion of intra-African trade and monetary co-operation. As a result, in terms of economic development planning at the national level, no definite policy was adopted with a view to nationally exploiting the possibilities of development offered by intra-African trade which was accorded low priority in almost all countries. Unless these problems are tackled and solved in an appropriate manner, the expansion of intra-African trade will remain limited. However, the solution to these problems will require drastic changes in economic planning and policy, as well as in attitudes towards economic development in general, which cannot take place over-night.

23. Despite these shortcomings it is rewarding for the project to note that radical changes in the attitude of African countries towards intra-African trade are taking place. As a result of this project, more and more African countries have realised the importance of economic co-operation and integration as a means of promoting over-all economic performance at national as well as at subregional and regional levels. The project therefore achieved its major goal of assisting African ocountries in the reformulation of their trade and economic policy and is developing more effective instruments conducive to the development of intra-African trade. The setting up of appropriate subregional and regional institutions will undoubtedly pave the way for the establishment of an African Common Market. However, further assistance will be required for the attainment of this objective.

VIII. The Need for Further Financial Support

24. As can be seen from the preceding summary, the project on the development of intra-African trade and monetary and financial co-operation has achieved significant results; among these the establishment of the Preferential Trade Area for Eastern and Southern African States can be singled out as a formidable success. The project also assisted the Economic Community of Central African States (ECCAS); in defining the Treaty for establishing the Community, Missions were also sent to the Economic Community of the Great Lakes (CEPGL) and the Central African Customs and Economic Union (UDEAC) aimed at identifying special needs and problems facing these countries in the field of trade especially intra-African trade. Unfortunately, despite these major achievements, the project has had to be discontinued due to lack of financial resources. Moreover, the cessation of ECA support in this field would have far-reaching adverse effects on the attainment of collective self-reliance through intra-African trade.

25. The project concludes that additional financial support is desperately needed to continue to implement the following objectives and priorities of the member States which also constitute the main thrust of ECA's activities in the field of trade:

(a) The formulation and implementation of appropriate policies in the field of trade promotion and trade policy so as to enable the African countries to establish and strengthen economic integration and trade facilitation schemes taking full cognizance of the special needs of each country;

(b) The re-orientation of external trade of the existing subregional economic groupings by undertaking market research; the introduction of modern marketing techniques; and the establishment of appropriate marketing organizations on subregional and regional basis;

(c) The preparation for and effective participation in international negotiations;

(d) The creation of appropriate and effective institutional framework for the promotion of intra-African trade, including the development and strengthening of export credit financing and export credit insurance schemes, commodity exchanges, payments and clearing houses, an African Monetary Fund, and an African Common Market;

(e) The collection and diffusion of information on intra-African trade and economic co-operation within the region, including specialized training required for the promotion of intra-African trade such as courses, symposia, seminars, workshops and meetings.

26. These objectives and priorities have been endorsed by the various decisions and resolutions of the ECA Conference of Ministers. More significantly, the project received the blessing of the Heads of State and Government of the Organization of African Unity through the Monrovia Strategy for Economic Development of Africa and the Associated Monrovia Declaration of Commitment on Guidelines and Measures for National and Collective Self-reliance. Subsequently, the Extraordinary Conference of African Heads of State and Government, which met in Lagos in April 1980, placed high priority through the Lagos Plan of Action on the development of intra-African trade.

27. In the light of these objectives, further assistance will be required in the following major areas not covered by activities of other United Nations organizations:

(1) Eastern and Southern Africa Subregion

28. Although the PTA Secretariat has been established and recently became operational, it is insufficiently staffed. In fact, one of the project advisors has been seconded to PTA to act as Director of the Customs, Trade and Finance Division till the Secretariat recruits a suitable candidate from within the subregion. Therefore, further assistance will be required from ECA, especially in the following areas:

- Product-by-product negotiations of the products of the Common List;
- Implementation of the protocols on Customs co-operation and Rules of origin;
- Actual establishment and strengthening of the PTA Clearing House;
- Actual establishment and stengthening of the Trade and Development Bank;
- Resources required: US$ 100,000.-

(2) Central African Subregion

29. The Treaty establishing ECCAS will be implemented in different phases including a Preferential Trade Area, which will evolve into a customs union and a Common Market. When established, this economic grouping will require further assistance to strengthen economic co-operation in the subregion, mainly in the fields of:

- Customs co-operation (tariff reduction, harmonization of customs nomenclatures and procedures, establishment of common external tariff);
- Identification of products to be traded and negotiations thereon;
- Establishment and strengthening of subregional clearing arrangements;
- Establishment and strengthening of the Co-operation and Development Fund.

30. Until the Community reaches the stage achieved by existing economic groupings, UDEAC and CEPGL will continue to exist and will need further assistance in the line recommended by the ECA evaluation report.

Resources required : US$ 200,000.-

(3) West African Subregion

31. The harmonization of trade liberalization programming of ECOWAS/CEAO/MRU will continue and further assistance will be required for the implementation of the agreed programmes and time-table for conducting studies on border trade and its implications on the economics of the countries of the subregion and for strengthening of the West African Clearing House. Furthermore, ECA will have to establish a subregional trade and development institution.

Resources required : US$ 175,000.-

(4) Establishment of an African Monetary Fund (AMF)

32. The next stage in the implementation of this project is the recruitment of a co-ordinator for the study on the establishment of the Fund.

(a) Missions by ECA experts and representatives of the African institutions undertaking the feasibility study are now to be undertaken by relevant institutions both outside and within Africa to collect necessary data and information for the purpose of the study. Preprations of the technical studies on the establishment of the Fund would start after the completion of the various missions;

(b) A second meeting of the Intergovernmental Group of Experts would be convened to review the feasibility study soon after its finalization. The African Monetary Fund Articles of Agreement would then be drafted on the basis of the feasibility study.

(c) A third meeting of the Intergovernmental Group of Experts and that of legal experts would later be convened to review the Articles of Agreement. Soon after the third meeting of the expert group a joint conference of Ministers of Finance, Trade and Central Bank Governors would be convened to consider the AfTF Articles of Agreement and make appropriate decisions thereon regarding the establishment of the Fund. A Conference of Plenipotentiaries would also thereafter be convened to sign the Articles of Agreement of the AfTF. Soon after that a period would be allowed for ratification of the Articles of Agreement.

(d) The next step would be entering into force of the Agreement, followed by the nomination of Governors by members, the election of Executive Directors appointments of a President and core staff of the Fund and the commencement of Fund operations.

Resources required: US$ 4000000.

(5) Establishment of National, Subregional and Regional Export Credit Financing and Export Credit Insurance Schemes

33. Feasibility studies would have to be undertaken with regard to the establishment of national export credit financing and export credit insurance schemes where they do not exist. At the subregional level studies need to be carried out in establishing such schemes within the framework of the proposed subregional trade in establishing such schemes within the framework of the proposed subregional trade and development banks. Furthermore, a study also has to be undertaken with regard to the establishment of a regional export financing scheme either as a window in the African Development Bank or as a separate entity. The main objectives are:

- To assist exporters to get bank financing (both pre-shipment and post-shipment) according to their needs, at a reasonable cost and on time;

- To provide cover to an exporter against the risks that he may not receive payment for his export either because of commercial risk of the buyer not making the payment or because of the buyer's country which would result in non-remittance of payment;

- To provide refinancing for export credits at national, subregional levels;

- To support and supplement the activities of the national and subregional export financing mechanisms.

Resources required : US$ 150 000

(C) Establishment of an African Mutual Guarantee and Solidarity Fund

34. According to the Lagos Plan of Action an African Mutual Guarantee and solidarity Fund should be established. For this purpose a feasibility study and other works would have to be carried out. The main objectives of the Fund, which would function as a window of the African Monetary Fund, would be:

- To promote economic development and integration of the region; to assist in preparing specific projects in the economic field and to obtain assistance from donor organizations for their implementation;

- To provide guarantees to donor organizations against finance obtained from them for investments in the member States; and

- To encourage intra-African trade and financial co-operation.

Resources required: US$ 100,000.-

(/) Establishment of African Commodities Exchanges

35. According to the Lagos Plan of Action, the establishment of African commodity exchanges is accorded high priority by the African Heads of State and Government.

(a) The study on this subject aims at removing the major obstacles represented by the inadequacy of marketing infromation on the availability of commodities, on prices and on supply and demand for specific key commodities to be traded within and between the countries of the region. It also aims at establishing one of the important subsidiary bodies of subregional trade promotion institutions with the view ultimately to linking the latter into an all African Common Market;

(b) Results of an initial study are now being evaluated. The proposal contained in this study has attracted considerable interest of African Governments and its effective implementation would enhance intra-African trade in primary commodities and raw materials required for manufacturing and industrialization programmes of the continent. In addition to resources for completing this study, future assistance is required for:

- Provision of technical assistance and advisory services to member states in the actual establishment of the proposed commodity exchanges;

- Provision of technical back-stopping in negotiations;

- Drafting agreements establishing the exchanges, their rules and regulations, contract specifications including articles establishing commodity associations;

- Provision of training and workshops for managers and private and public users on technical and operational aspects of the commodity exchanges.

Resources required : US$ 290 000.

(a.) Report on Import Management and Marketing Techniques with Reference to African Countries

36. In accordance with the programme of work and priorities for 1984-1985, it is planned to organize workshops, seminars and in service training in trade promotion, import management and marketing techniques. The immediate objective of the above study is to prepare background documents for the workshops and seminars with the view to encouraging effective participation during the workshop and seminars. The broad areas that will be dealt with in the study include techniques of import management with particular reference to the identification, organization and control of materials inputs, cost saving techniques and planning of imports.

Resources required: US$60 000

(9) Assistance to the Proposed Federation of African Chambers of Commerce

37. Activities identified in this area include:

- Assistance for the establishment of the proposed Federation of African Chambers of Commerce;
- Assistance for the creation and support of subregional Federation of Chambers of Commerce;
- Organization of training activities in the field of trade promotion, trade information, export; marketing and market research;
- Assistance in the establishment of a trade directory as part of the trade information systems.

Resources required: US$ 100 000

(10) Development and expansion of Trade and Financial Co-operation in North Africa

38. This involves further activities including:

- Identification of existing and potentials products to be traded between North African countries.
- Identification and analysis of barriers and obstacles to the development and expansion of trade, including tariff and non-tariff barriers, and recommendations on the removal of such barriers.

- Support and/or establishment of mechanisms and supporting instutions oriented towards the development of such trade, as necessary.

  Resources required: US$ 200 000

(11.) Inter-Subregional Economic Co-operation

39. In preparation for the establishment of an African Common Market, there is a need to start and amplify work on economic linkages between two or more subregions.

- Identification of existing and potential products for trade among two or more subregions;
- Identification of trade barriers to inter-subregional trade, including tariff barriers;
- Formulation of measures and mechanisms to facilitater inter-subregional trade;
- Harmonization of subregional integration schemes, including trade liberalization schemes;
- Strengthening and/or establishment of supporting institutions.

  Resources required: US$75 000

IX Conclusions

40. It cannot be overemphasized that the African countries will find it hard to develop without the support provided by the intra-African trade project. Therefore, assistance has to be provided in the strengthening of their institutions especially those listed above. Moreover, technical advisory services and other assistance must also be given to these institutions in connexion with studies related to the harmonization of trade and liberalization programmes. Finally, the project concludes that it would be a matter of great concern that at a time when the project has aroused so much interest and was beginning to bear fruit it should be terminated due to lack of resources. Therefore, unless new funds are available to continue the project, most of the activities which have been initiated over the past seven to eight years in intra-African trade cannot be sustained within the resources currently available with the ECA secretariat. In fact all the activities which have already been initiated towards the establishment of an African Common Market and eventually an African Economic Community by the year 2000 as required under the Lagos Plan of Action are already in serious jeopardy.